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Introduction to the Export Process

Ce rapport est également disponible en français.

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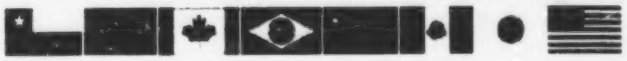
Introduction to the Export Process



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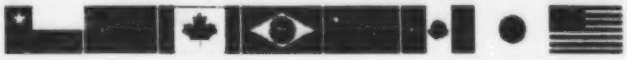

INTRODUCTION

Purpose of the guide

This guide is intended to give new exporters an overview of the export process. The essential elements of the process will be discussed in a simple, logical order to help illustrate the sometimes complex world of international trade. In order to complete a successful international transaction, it is not necessary that the exporter be an expert in every aspect nor is it necessary that he/she accomplish every task involved single-handedly. There are many reliable professionals who can be called upon and who are able to efficiently and cost-effectively take the worry away and handle one aspect or another for you. It is, however, in the exporter's best interest to familiarize him/herself with the entire process in order to be aware of all the requirements to a transaction and be able to identify which areas need professional attention.

After reading this guide, the exporter should have a better idea of what exporting entails and should feel encouraged to seek out more information from the contacts provided, as well as other sources. Additional research should lead to a comprehensive export plan in order to make an informed choice in the end. Distance, foreign regulations and cultural differences can build up quite a few obstacles, but through research and planning, all of these can be overcome. By taking steps to make the unknown more familiar, the exporter is taking steps towards success.

History

"Importing and exporting, also known as international trade, is one of the oldest forms of commerce, and there are many documented accounts of trading caravans carrying goods between China, India, the Middle East and Europe long before the birth of Jesus Christ." (J.E. Vollmer, E.J. Keall, E. Nagai-Berthrong, Silk Roads China Ships, 1983)

Over the centuries, the world has evolved tremendously and yet, the concept for trade has remained constant: fulfilling needs. Fair trade is a mutually benefiting exchange. "Trade does not impoverish one side and enrich the other. People will not trade with you if it

makes them worse off than they were before the trade; both sides must be better off than they were previously in order for trade to take place." (Peter T. Malkovsky, The Basics of Import/Export, 1994)

Today, trade benefits from advanced technology, sophisticated communication links and transportation systems that cover the world, global banking systems and international organizations and agreements that support and regulate trade such as the World Trade Organization (WTO).

Advantages

There are many advantages to exporting: increased sales; better use of production facilities; lower cost per unit because of higher production (economies of scale); a diversified market which means that when the economy of one country is in a downturn, you can rely on another that is doing well; an extension of the life of a product since there are different markets where it can be introduced.

On the other hand, there are: additional costs allotted to travel, market research and development, and shipping to the foreign market; additional paperwork; a greater need for information and knowledge.

The export process

The process of exporting can be divided into five main sections or elements:

1. The *market* refers to the location where the product is intended to be sold. Generally, markets are defined by geographic boundaries. A foreign market is a country other than your own (i.e. Mexico), a grouping of countries (i.e. Latin America), or just part of a country such as a province, state or city (i.e. Mexico City).

2. The *product* is produced, manufactured, assembled or repackaged and is intended for sale. This can be a product that is already being offered to Canadian customers, an existing product that will be somewhat altered, or a completely new product.

3. The *distribution channel* describes the hands your product will go through before it reaches the final consumer. It is rare that a product goes from the production stage directly to the end user. One, two or even more middlemen might be involved in passing the product along, each taking it a step closer, until it reaches its final destiny.

4. *Shipping* involves the physical movement of the goods. A foreign shipment will have to travel a greater distance, cross borders and clear customs and thus might involve several transportation modes and certainly a collection of documents.

5. The *payment* in a foreign transaction is not as straightforward as in a domestic one. Because of the distance factor, and the fact that you are doing business in a foreign arena with its own rules, the risks are greater and therefore the transaction will involve a few more steps and documents in order to ensure that all these risks have been foreseen and security measures have been taken.

Each of these five elements will present you with a set of alternatives. This guide will explain the options that are available to you. Being aware of the options and understanding them will help you weigh the pros and cons of each, study which is best suited to your situation and lead you to make a series of decisions that will optimize your venture.

1. SELECTING A FOREIGN MARKET

In trade, offering a product or service is only half the equation. There must also be a need or demand for trade to take place. Finding out who the buyer is and understanding his needs, helps you determine what product to sell, where to sell it, and at what price. A lot of factors can influence the demand for a product and therefore the sales, and that is why researching a new market is essential. A market study involves taking a look at the country, the customers within and the competition, if any, already established there.

Market study

Country profile

Gathering information on a country can be very interesting and will reveal the kind of environment where you will be doing business. The main aspects to study are geographic, political, economic, regulatory and infrastructural.

- *Geography* is simple and provides a first look at the country. The location, depending on its proximity and accessibility, will determine how quickly and easily the product will reach the market. If the location is remote, special attention will be needed. Looking at the physiography of the country, the climate, the overall population and the main cities where it is concentrated will be helpful in planning the volumes, transportation and distribution.

- *Politics* affect business in every country. Finding out what type of government runs the country, the political divisions within the country (provinces or states), the name of the leader and the ruling party is a good start. More importantly, discover if there is political stability, the government's platform and attitude towards trade, if its policies support an open or closed economy and if the country has membership in any international organization such as the World Trade Organization (WTO).

- There are many *economic* indicators that will help you determine the business 'mood' of the country. The Gross Domestic Product (GDP) indicates the size of an economy, and the GDP growth rate indicates the trend and stability of the economy. Per capita income gives an indication of the buying power of the population. Inflation rates and interest rates impact on the buying power and the borrowing power of the customer and might affect the pricing and/or the sales of the product. The strength and the stability of the currency also plays an important role in foreign trade and should be monitored closely. International trade statistics, such as the main imports and exports, will indicate the level of activity, the needs and trends, and the main trading partners. Canada's position or ranking in trade with that country and the trade relationship between the two will determine to what extent other Canadians have paved the way in that market. Canada is fortunate in enjoying a good reputation and acceptance for its products in many countries.

- The *regulatory* environment sets the limitations, the rules by which you must play. Each country has its own set of regulations. On one hand there are trade agreements that liberalize, encourage and support trade between countries by reducing or eliminating trade restrictions. When considering exporting to a new country, finding out if Canada shares an agreement with the foreign country can be highly beneficial. Agreements offer members preferential treatment such as the elimination or reduction of duties, the elimination of non-tariff barriers such as quotas and customs user fees, and the participation for government contracts. Among trade agreements are the North American Free Trade Agreement (NAFTA) between Canada, the United States and Mexico, and the Canada-Chile Free Trade Agreement (CCFTA). The most commonly applied tariff treatment is the Most Favoured Nation (MFN) applied to imports from countries that are members of the World Trade Organization (WTO).

  On the other hand, there are laws and regulations that are put in place by the foreign government in order to protect their consumers and industries, maintain standards, or control the overflow of foreign products. Controls can be in the form of tariffs, or non-tariff barriers such as quotas, import permits and special restrictions. Make sure that you are aware of all requirements before concluding a contract. There might be safety, quality or technical standards to meet; health or environment regulations to respect; labelling, packaging, measurement or other requirements to fulfill. It is also wise to find out ahead of time, whether letters of credit, bank drafts, money transfers and other means of payment are available through the banking system or money exchange houses. Is the currency convertible and are there any controls on the transfer of foreign exchange? For companies that plan to create a permanent establishment in the foreign country, it is important to be aware of the foreign investment regulations allowing foreign majority participation, and of the corporate income tax rate which will affect income.

- Learning about the *infrastructure* of a foreign country is crucial because the customers might be ready to buy but there might not be a feasible way to close a deal or get the product to them. How sophisticated is the communications system - mail, telephone, facsimile, newspapers and magazines, radio and television? How reliable and efficient are the modes of transportation - highways and trucking, rail, marine ports, airports?

Once you are more familiar with the country and have determined if it is a favourable environment in which to do business, the next step is taking a closer look within, at the customer profile, to find out if a market exists for the product.

Customer profile

Painting a picture of the consumers in this new market will help determine the need for the product. Find out the population, its distribution by age and social class, the employment rate, and the real or disposable income. Get to know the culture, the religion, the preferences and the acceptance of foreign products, especially Canadian ones. Being familiar with the social norms, knowing what is sacred and if there are any prohibitions, and understanding the attitude towards family, work and leisure will enable the acceptance of the product and facilitate marketing. What is the consumption or the demand for this product or a similar one? Analyse the growth of the population (increasing demand) and the trends in the market. Are people seeking out quality? Are natural products becoming more and more popular? Are foreign products perceived as being more prestigious? Is the lifestyle being affected by women joining the workforce, the pace of life getting quicker, or new technolcgical developments? Consumer trends can reveal a lot about the demand for a product. By getting to know the consumers, you will be able to select a segment of the market as potential customers, forming your target market. The need or demand being determined, you will then need to discover how many others, if any, are serving the market that you are targeting.

Competitive profile

In order to make realistic sales predictions, it is important to look at the big picture. We have determined the size, direction and specifics of the demand, now let's take a look at the offer. Domestic providers within the country might already exist. There might even be foreign suppliers of this product to the country. They are the direct competition offering the same product. Also, there are products that are different, but serve the same purpose. The providers of these products are considered indirect competition. All of these products will compete for a share of the market to be served. It is not necessary, and often not feasible, to be the sole supplier for an entire market in order to be successful. It is wise, however, to be aware of the competition and its size, in order to prepare a sound and realistic plan to carve out a share of the market. By offering a product that either is or is perceived as being superior, is higher in quality, more timely, different, better in price or value, appealing to a unique niche market, simply available at the right time and place, offered with incomparable service or at a more convenient location, etc., it is possible to build up one's share of the market.

The market study will answer whether or not it is feasible and advantageous to export a specific product to the selected market. It is possible that the environment in that country is not promising or supportive of the venture; that the consumers of this particular market have no need or use for the product; or that the market is overly saturated with the product by the competition. The purpose of the study is to find out before it is toc late - before a lot of time, effort and especially money have been invested. Therefore, a study that reveals that a certain market is not advantageous is still a success in that it has avoided a possible disaster. On the other hand, a study that appears promising, pointing out the areas of difficulty, allows the exporter the chance to find and plan for solutions ahead of time. Research pays off.

Travelling

Business travel

Several visits might be required before a contract is signed. It is highly beneficial to experience the market first-hand, and meet your partners, contacts or potential customers personally. It is also a good opportunity to visit the point of sale, observe the competition and get a feel for the local culture, trends and habits.

Before going on a business trip, you should have completed a business plan including clear goals, and showing the viability of the venture. Have a list of potential contacts, and preferably appointments. Know a little bit about them and be ready to present your material. Know where to go for help or assistance, most likely the Canadian embassy or trade centre. Familiarize yourself with the geography and the modes of transportations ahead of time. Plan ample time for getting from one place to another and do not overload your schedule. You will likely need more time than you predict, more appointments might arise and there is always the unexpected. While communicating with your contacts and while planning your itinerary, take into consideration the time difference and the pattern of working hours and mealtimes. Be aware of the local holidays, learn a few kind words in the local language such as thank you or a greeting, and familiarize yourself with the main business and social ethics such as the correct use of names and the proper attire. If needed, find out if the services of a translator are available abroad. Check with the Department of Foreign Affairs and International Trade for specific travel requirements to the foreign country such as visas, permits and immunization. Most importantly, be realistic in your expectations. In many foreign countries, potential business partners have to be cultivated by developing a relationship. It takes time and commitment.

Culture and business practices

Culture affects interaction whether it is business or social. In doing business in a foreign country, it is crucial to have, at a minimum, an awareness of the cultural setting. It would be unfortunate to lose an opportunity because of a simple miscommunication or misunderstanding. An appreciation of the culture can improve business relationships,

avoid the risk of insulting your host and make the difference in closing a deal. Values, norms and ethics will differ. Be patient and open-minded. Chances are there is a rationale behind a behaviour that you do not understand immediately. Try to adapt to the environment. Be observant. Let the host lead when you are unsure. Be polite and diplomatic. Avoid giving an opinion on politics and religion.

Be aware of the etiquette surrounding greetings, business cards, personal space and gift-giving. Be familiar with the attitude towards authority in the workplace, status and titles, time and deadlines, women in business, conflict or disagreement in negotiating. What is the importance given to the group versus the individual? Is it acceptable or expected to mix business and socialization? How important are human relations? Language is an important issue because it is at the heart of culture. Even though English is widely accepted as the international language of commerce, whenever possible, provide material in the host's language. Be sensitive to manners and customs. Remember, abroad, you are the foreigner.

Trade fairs and missions

Trade fairs and missions are an opportunity to meet potential buyers, partners, intermediaries (see distribution channels), competition and contacts.

Trade missions have the intention of promoting a group of companies travelling abroad to a target country. They are usually organized by the federal or provincial government, or a trade association and because all of the logistical details have been taken care of, the participants can focus on doing business. Missions can be costly but various government programs and services are available to help participants out. Aside from buyers, they provide access to market information and a personal introduction to high-level business leaders and government officials.

Trade fairs are held in the host country but can attract visitors and exhibitors from around the world creating an environment where buyers and sellers can meet. Trade fairs can also be costly and involve preparing and setting up a booth or exhibit. They give companies the opportunity to test customer reaction and interest in their product by giving it a great deal of exposure in a relatively short time period.

Both missions and fairs attract foreign buyers and increase product exposure. To determine if a mission or fair is worthwhile, find out who the participants/exhibitors and the visitors will be. Will the event attract potential clients that fit your customer profile? Bring promotional packages and samples. Be prepared to quote prices, take orders, or negotiate agreements with intermediaries. Follow up on all leads afterwards.

2. PREPARING THE PRODUCT FOR EXPORT

Once a suitable market and a potential demand have been identified, it is time to take a look at your own capability. Assessing your *export readiness* means: first, *determining what will be required* of you and your company in order to proceed with exporting; and second, evaluating your strengths and weaknesses to *determine your ability* to undertake the project.

Resource planning

Making a list of all the resources that will be necessary to enter into this venture is a good exercise in planning the entire process. Planning what will be required of you and at what point will help foresee needs, obstacles, costs and the timing of events. The main items that need consideration are production capacity, equipment, materials or ingredients, labour, administration, marketing, translation services, storage, local representation (in the foreign market), financial services, packaging and shipping capacity, and the time and costs tied to the additional resources.

For each requirement that you have listed, evaluate your ability to provide internal input or expertise. When the resource or skill is not available within your organization, prepare to take action and look for external support. There are professionals for every aspect of the process that can be called upon for advice, service and expertise: suppliers, marketing specialists, trading houses, banks and other financial institutions, freight forwarders, etc.

Product suitability

Taste and preferences vary around the globe. In the end, the product must be suitable to the market. Besides translating information on the label or package, evaluate whether the product function, price, quality, size, appearance, timeliness, name and presentation are appropriate or if modifications are needed. Adapting your product to each individual market may increase sales, but will also incur additional costs. Does the demand justify the costs of modifying the product? Weigh the benefits. A standard product sold to all markets may sell just as well. Gauge what competition you face in each market and if you need to differentiate yourself. Ultimately, the goal is to meet the needs of the market while achieving profitability.

Make sure that the product respects all health, safety, environmental, and technical standards in the target market if any apply, and that all labelling and packaging requirements are met. In the case of protecting intellectual property - a patent or copyright for your product such as a brand name or (registered) trademark - seek professional legal counsel.

Once the resource requirements and the final product have been assessed, incorporate this new information into your existing business plan, in order to create a cohesive new plan.

Export regulations

The export of Canadian products may be subject to Canadian *reporting requirements* or *export controls*. Under the provisions of the Customs Act, goods exported from Canada must be reported through an Export Declaration (B13A) available from Revenue Canada. You do not have to declare shipments whose value is less than $2 000 or shipments destined for the United States.

All controlled, prohibited or regulated goods, have to be accompanied by the appropriate permit, certificate or license when they are exported. Compliance can be verified with the

Department of Foreign Affairs and International Trade (DFAIT). For example, for some products such as meat or meat products, a certification of product for export is necessary and can be obtained by the Canadian Food Inspection Agency.

3. CHOOSING A DISTRIBUTION CHANNEL

The product is now ready. It is time to look at entering the chosen market. Many options exist, each with its own advantages and disadvantages. Your situation, that is the nature of your product, your choice of market and its accessibility, your comfort level with the exporting process and the combination of your available resources, knowledge and expertise, will determine which *market entry strategy* is best for you.

Channel options

Trading house

If you do not wish to get involved in the exporting process, or do not possess the resources for market research and distribution, selling directly to a *trading house* is a good option for you. A trading house buys your product in Canada and resells it abroad. The downside is that once you sell your product to the trading company, it takes control over its marketing, pricing and distribution. Because you are selling to a Canadian company who then exports your product, this is called indirect exporting. Another indirect form is *piggyback* exporting where a finished product is sold to another Canadian company producing a complementary product and involved in exporting. Both of these options involve intermediaries: a person or company who moves your product along towards its final market, but is not the end user.

Distributor

Direct exporting means selling to the foreign market, but intermediaries such as distributors and agents can still be involved. A foreign *distributor* purchases your product at a discount and assumes control over marketing, retail pricing and distribution. He has an established distribution network and is responsible for the inventory you sell him. He may repackage and sell the product under his own trade name.

Agent

An *agent*, also based abroad, does not assume responsibility of the goods but rather is tasked with establishing sales for the product for a commission paid by the exporter once payment is received from the buyer. The agent may represent other non-competing products and may request exclusive representation for a territory.

Whether you decide to work with a distributor or an agent, an agency agreement will have to be drawn up. Make sure that the terms and responsibilities are clear. The basic elements include the parties involved, the product(s), territory, quotas, duration of the agreement, renewal, termination, discounts and resale prices for the distributor, commissions for the agent, payment and currency, promotional responsibility, use of trademarks and brand names, inventory levels, policy on dealing with competitive and complementary products. Legal advice is recommended.

Partnership

It is also possible to export through a strategic alliance or *partnership*. Through a contractual agreement, the Canadian exporter provides the product for sale, while the new partner can provide knowledge of the market, an established distribution network, and a local marketing presence. In this global age, partnering has led many companies, large and small, to success through the sharing and building onto eachother's strengths, skills and expertise, enjoying benefits that could not have been achieved alone.

Joint Venture

A *joint venture* is the joining of two companies, one of which would be located in the foreign market, to legally form a third company to operate in that market. Ownership and control of the new corporation are shared by the partners. Depending on the country, there may be a legal requirement limiting the percentage of foreign ownership of the new company.

Foreign subsidiary

Setting up a wholly-owned operation in the market offers complete flexibility, access to the market, presence, and possibilities for local investment and participation. An existing plant can be acquired or a whole new operation can be built from the ground up, called a greenfield operation. This option can be costly and risky.

Partnerships, joint ventures and subsidiaries are considered investments and are welcomed by host countries because they stimulate economic development and create jobs. Investing abroad as a way to facilitate trade has proven to be very efficient in penetrating markets and creating long-term customers.

Other options include co-production and co-marketing, licensing and franchising.

Control versus risk

Generally, the more responsibility you take on, the greater control you will have in the process, but the greater risk you will assume. Letting a partner or intermediary take on some of the responsibility might take away some of the control or flexibility, but will also alleviate some of the risk. Margins usually go hand in hand with responsibility. In taking the product to market, the more responsibility you take on, the higher the margins. On the other hand, partnering with an intermediary who is familiar with the market and able to generate higher sales of the product might be more profitable in the end despite the additional cost of commissions or lower margins.

In doing business with new contacts, make sure to go through a *buyer qualification* process. Check references and credit ratings; visit prospects. Banks and trade commissioners can help.

To avoid the risk of non-payment, verify their creditworthiness by investigating their business reputation, their asset base and their ability to perform their side of the transaction.

Costing and pricing

This is a good time to assess the financial feasibility of the project. You know what you are selling, where it is going and through what channel it is getting there. Because international trade involves additional elements to the transaction such as customs and exchange rates, it is important to carefully assess the cost of the endeavour in order to determine the selling price, predict revenues, assure profitability, and maybe arrange for financing.

- A *cost analysis* should include all costs pertaining to production (including overhead costs), product modification, labelling, packaging, agent and distributor fees, advertising, document preparation fees, inspection, transportation including packing, marking, lading and carriage, freight forwarder fees, cargo insurance, warehousing, customs processing fee, duties and taxes, exchange rate, cost of financing and banking fees, export credit insurance. It is useful to break the costs down per unit in your calculations. Determining the timing of the costs is equally important in order to plan cash flow.

- A *pricing analysis* entails adding the distributor markup and retail markup to the costs and comparing that to current prices in the market. The product must be priced competitively. The difference between the total costs and the market will determine the profit margin that can be expected. Again, incorporate this new information into your business plan, setting detailed, calculated sales objectives, profit and market share targets.

4. SHIPPING THE GOODS

The actual shipping of the goods will happen eventually, but at this point, you are still in the research and planning stages. Transportation is an important element in cost analysis and will most likely be a major issue while negotiating a contract with a potential buyer.

Transportation modes

Transportation modes vary and offer different attributes that might or might not be an issue for your product. Ultimately, you want to obtain a service that is the most effective for your product at a reasonable cost. The three main attributes to consider in transport are safety, speed and price.

Road

Depending on the destination, a shipment can be sent by truck from the source to its final destination. In most cases, shipments will need to be transported by truck for at least a part of the course even when air, rail or marine modes are involved. The truck mode is safe, moderately fast and very flexible as far as routing and scheduling. Its size does limit its load capacity for bigger shipments. Consolidating, for smaller shipments, can be cost-reducing.

Rail

This mode is less flexible, being limited by established lines, however, it is a good choice for bulk materials and long distances.

Marine

Marine transportation is the slowest and the least expensive of modes. Service quality, transit time and rates vary depending on many factors. Make sure to explore all possibilities.

Air

This is the fastest and safest mode, but entails a higher cost. If speed is an issue, especially over a long distance, and the additional cost is still affordable, then air shipment is a better option. It is usually not feasible for large or heavy shipments.

Because of the greater distance in international trade, it is most likely that a combination of different transportation modes will be used. It is important to insure that there will be no gaps in transit and that the most efficient routing has been selected in order to keep costs to a minimum. Select a reliable carrier, negotiate a price and make sure to discuss routing, timing, packing, insurance, special requirements such as refrigeration and the ability to trace the shipment.

Packing and marking

Pay special attention to packing and marking. Adequate packing will ensure the safety of the goods and can lower insurance rates. Proper marking will avoid delays and make identification easier when loading, unloading, clearing customs, routing and delivering. Make sure to meet requirements of all the countries the shipment will be travelling through.

Documentation

Proper documentation is crucial and must be in order for shipping, carriage, tracking, customs clearance, delivery and receipt to take place. Most importantly, a complete and accurate set of documents is needed for collecting payment. Depending on the nature of the product, the transaction and destination, different combinations of documents will be required. Some documents are needed to complete the commercial transaction and others to fulfill government requirements. Be informed, before the transaction takes place, of all the documents that will be necessary. Plan which ones will be needed, in how many copies, who issues them, where each copy must be sent, who is responsible for doing so and at what time.

The most common documents involved in a typical transaction, are: the *commercial invoice* which is the actual proof of sale issued by the exporter detailing the goods sold, the quantity, the weight, the price, the destination and name of the importer; *the bill of lading* or waybill issued by the carrier for shipping and tracking defines the carriage contract and may act as the document of title to the goods; the *cargo insurance certificate*; the *certificate of origin* justifying the preferential rate of duty applied under an agreement such as NAFTA; the *certificate of health* when dealing with food products; an *export declaration form (B13A)* which needs to be filled by the exporter to help the government keep track of exports for statistical reasons such as calculating the Gross Domestic Product. The B13A is not necessary for shipments whose value is less than $2 000 or when exporting to the United States. A *consular invoice* is requested by some countries before you can export a shipment to their market. It can be obtained at the embassy/consular representing the country in Canada.

Freight forwarders

Freight forwarders are companies that specialize in every aspect of shipping from packing and marking, insurance and documentation, to shipping and tracking. For the new exporter, it is a great way to learn the process while making sure that all the details are taken care of by an expert. For small- and medium-sized companies who do not have the international shipping volume that warrants having an in-house export branch, it also makes sense to use external expertise.

Trade logistics, the specialized field focusing on the international movement of goods, has improved dramatically over the recent years. Rates and delays have been greatly reduced and the entire process integrated. Advanced logistical systems include Just-in-Time (JIT)

deliveries and Electronic Data Interchange (EDI), a fast paperless transaction processing and tracking system. Containerization has been introduced to facilitate handling and expedite shipping, especially for *intermodal* shipments when more than one mode of transportation is used.

5. SECURING THE PAYMENT

Now that you have completed researching, planning and strategizing and that you have assessed the feasibility of selling your product in a specific foreign market, through a certain channel and at a price that is both competitive and profitable, you are ready to enter into a transaction.

Quotations and contracts

When negotiating with a potential buyer, you will need to make an official offer: a quotation. Quotations should include a description of the product, quantity, price, shipping terms, transportation method, payment terms, currency and delivery date. A quotation is legally binding, meaning that if it is accepted, you are committed to it. If the importer makes any changes to it, it becomes a counter-offer and can be accepted or refused. When a purchase order is received, a sales confirmation should be sent to the importer to acknowledge receipt. The contract or sales agreement emerges out of the quotation, purchase order and acknowledgement.

When the contract is drawn up, it is important that all necessary terms be clearly stated and that each party understand their own responsibility, that of their counterpart, the buyer's and seller's banks, the carrier, and any other party involved in the transaction. In an international contract, it is important to choose which law will govern the contract, and in which jurisdiction it will be administered in case of a dispute. Also include an arbitration clause that will define the resolution process. If the Canadian law is not chosen, it is wise to familiarize yourself with the chosen foreign law and its possible consequences before entering into a contractual agreement.

Incoterms

When costing the transaction and drafting a contract the exporter and the importer will have to determine who will be responsible for the carriage and insurance of the goods for each portion of the course. They must also determine at what point the title of the shipment will change hands. Title and the goods themselves are not necessarily taken over simultaneously. Incoterms (International Commercial Terminology) have been established by the International Chamber of Commerce to define responsibility. Incoterms, known and accepted around the world, facilitate international trade and avoid misunderstandings. They are used as a means to divide the risks and costs of transportation between the buyer and the seller and should be defined as part of the shipping terms in the contract. The terms are divided into four categories: 'E terms', 'F terms', 'C terms', and 'D terms'.

- With the *E term* EXW or Ex Works, (there is only one E term), the seller only needs to make the goods available on his premises. There are no transportation costs involved for him. This is the option that entails the minimum obligation for the exporter.

- Under *F terms*, the seller is not responsible for the main carriage, but must bring the goods to the main carriage point or port of shipment. The term FOB or Free on Board means that the seller must transport the goods to the carrier and be responsible for the loading. All costs and responsibility are assumed by the buyer once the goods are on the carrier. If FAS, Free Alongside Ship, is chosen, the seller must bring the goods to the carrier, but is not responsible for loading. The buyer's obligation starts on the quay (and therefore must insure that loading services are included in his shipping contract.)

- *C terms* require that the main carriage be paid by the exporter without assuming risk of loss or damage once the goods have been shipped. CIF, Cost, Insurance and Freight, determines that the seller is responsible for all freight and insurance costs up until the port of destination. Responsibility for the goods passes from the seller to the buyer once the goods have been delivered to the carrier even though the seller assumes the costs for carriage and insurance for the buyer's benefit. CFR, Cost and Freight, imposes the same obligations on the seller, minus the insurance. That means that the buyer is at risk for the main portion of the trip and responsible for any damages unless he makes his own arrangements for insurance.

- *D terms* dictate that the exporter is responsible for bearing all costs and risks to deliver the goods to the country of destination . DAF, Delivered at Frontier, brings the goods to the destination country's boundary but not passed customs. Under DDU, Delivered Duty Unpaid, the seller is responsible for all risks and costs in bringing the goods to the agreed delivery location, excluding duties. DDP, Delivered Duty Paid, bears the same responsibilities for the seller, including duties and taxes. This is the option with the maximum obligation for the exporter.

The choice of Incoterms can become a negotiation factor or a way to outperform the competition. Risks and costs should be shared in a reasonable manner although more and more, importers are requesting that products be delivered with custom clearance. Payment depends on proper completion of the agreed terms. It is recommended that a complete list of the Incoterms, their definition and legalities be obtained before entering into a contract.

Methods of payment

There are four main methods of payment. *Payment in advance* which is a difficult term to obtain in international trade, especially with a new buyer. The importer bears the maximum risk. *Collections* involve bills of exchange or drafts as they are commonly referred to. They

are an unconditional order in writing to pay on demand (sight draft) or at a determined time in the future (term draft). The exporter retains title to the goods until the collection, either of the payment or the bill of exchange. Either way, there is a risk that the buyer defaults on the payment. In the case of a sight draft, the goods, having arrived in the foreign market, would have to be shipped back by the exporter, bearing all the costs. In the case of a term draft, the title to the goods would have passed to the buyer at the time of delivery. Collections can therefore be risky. Selling on *open account* is very risky for the exporter and not recommended, unless the seller has developed a long-term trusting relationship with the buyer. *Letters of credit* (L/Cs) offer the most security for the exporter and importer alike.

L/Cs, also called documentary credits, entail the involvement of financial institutions and a strict procedure. The importer initializes the process with its bank, the issuing bank, who, after accepting the application, draws up the letter of credit and forwards it to a corresponding bank, in the exporter's country. The latter becomes the advising bank for the exporter. When the exporter ships the goods and fulfills all the requirements agreed upon and stipulated in the letter of credit, he/she presents the necessary documents as proof of completion to the advising bank and collects payment. The advising bank receives payment from the issuing bank. It then sends the documents to the issuing bank who will obtain payment from the importer. The issuing bank releases the documents to the importer who will need to present them to the carrier in order to claim the goods.

This payment method therefore guarantees payment for the exporter as long as he provides the goods as promised, and guarantees delivery of the proper goods for the importer before he needs to disburse any funds. The most secure form of L/C is a secured, irrevocable L/C, which guarantees that the issuing bank will pay the advising bank even if the importer defaults (secured) and insures that the agreement cannot be revoked once finalized (irrevocable).

Financing and insurance

Many factors, such as distance and currency conversion, contribute to the additional time involved in an international transaction and may create the need for *financing* to fill export orders. Timing is crucial and arrangements must be made to insure that there are no gaps in cashflow. It is important to determine how much financing is needed, at what time and for how long. To protect your financial interests, it is wise to consider risk management tools or *insurance* to minimize the main risks of an international transaction: commercial or buyer risk, political or country risk, and currency risk.

Export Development Corporation (EDC) offers financing services for the exporter as well as the foreign buyer. Allowing your buyer more time to pay may increase your competitiveness. By giving the buyer a loan, EDC pays the exporter directly and collects from the buyer over time. Over 80% of EDC's customers are small- or medium-sized. No company is too small for EDC.

Also available through EDC is insurance protecting the exporter against losses due to non-payment relating to commercial or political risks. In regards to commercial risk, the exporter can purchase export-credit insurance in case of insolvency or non-payment by the foreign buyer. Political risk entails inconvertibility of funds, transfer payment difficulties, war, revolution or cancellation of government import or export permits. Performance-related guarantees will provide the exporter with the security banks need to maximize credit, or the assurance requested by a foreign buyer (often government) as part of a bidding process.

Major banks can offer many financing and trade services including credit details on foreign buyers, advice on selling terms and payment terms, loans and credit lines, foreign currency services, contacts with correspondent banks abroad and information on foreign countries. They also offer a discounting service which can purchase foreign receivables, in other words give you up-front cash in exchange for your accounts receivable. This cuts the risk of non-payment by the foreign buyer and reduces the exchange rate exposure or currency risk, in case it fluctuates against your favour. Another way to reduce the currency risk is through a financial instrument such as a forward rate, which guarantees a specific exchange rate in the future, when payment is received, regardless of the rate at the time. For any of these specialized services, ask for an international trade specialist.

CONCLUSION

This review of the export process should encourage the exporter to engage in research and planning activities leading to a comprehensive, customized export plan. As the exporter gets involved in this process, he/she should ultimately understand the advantages and risks that each element presents. For each transaction, there may be many contracts involved, such as the sales agreement with the foreign buyer (the main contract), the shipping contract with the carrier, and the payment agreement involving banks and the buyer. The exporter should be aware of his/her rights and obligations under these contracts and other laws or conventions that may apply and have an impact on the transaction. It is advisable to seek legal advice while drafting or reviewing international contracts.

In contemplating international trade, the exporter should not feel intimidated, but rather get informed, ask questions and seek professional assistance to pursue the benefits of exporting. In general, Canadian businesses enjoy a very good reputation throughout the world. Canadian products are viewed as high-quality, competitive and innovative ones and are welcome in foreign markets. There are many reliable sources of information and assistance dealing with the different aspects of international trade to guide you through the process. In addition to the ones provided throughout this guide, a list of contacts can be found in the following section.

SOURCES OF ASSISTANCE

Agriculture and Agri-Food Canada

The mandate of Agriculture and Agri-Food Canada is to promote the development, adaptation and competitiveness of the agriculture and agri-food sector through policies, programs and services. The purpose of the ***Agri-Food Trade Service (ATS)***, established by the Department, is to provide simplified centralized access to international market information, export trade counselling and export support activities, which will take the exporter from initial enquiry to foreign market.

The ***Agri-Food Trade Service*** is available on the Internet (**http://ats.agr.ca**) and offers agri-food export information and advice at a click. Information on the site includes country/market and product reports, market trends and opportunities, global trade rules, trade shows and missions, international trade statistics, world trade news, exporting guides, federal government trade contacts, a database of international buyers, and Canadian supply capabilities.

British Columbia Regional Office
Tel: (604) 666-6344
Fax: (604) 666-7235
Gretchen Bozak (e-mail: bozakg@em.agr.ca)

Alberta Regional Office
Tel: (403) 495-2119
Fax: (403) 495-3324
Lorrie McFadden (e-mail: mcfaddenl@em.agr.ca)

Saskatchewan Regional Office
Tel: (306) 780-5545
Fax: (306) 780-7360
Jim Atcheson (e-mail: atchesonj@em.agr.ca)

Manitoba Regional Office
Tel: (204) 983-8622
Fax: (204) 983-4583
Fay Abizadeh (e-mail: abizadehf@em.agr.ca)

Ontario Regional Office
Tel: (519) 837-5824
Fax: (519) 837-9782
Wayne Parlee (e-mail: parleew@em.agr.ca)

Ottawa Office
Tel: (613) 759-7687
Fax: (613) 759-7499
Maurice Egan (e-mail: eganm@em.agr.ca)

Quebec Regional Office
Tel: (514) 283-3815 ext. 501
Fax: (514) 496-3966
Mario Hébert (e-mail: hebertm@em.agr.ca)

Nova Scotia Regional Office
Tel: (902) 426-7171
Fax: (902) 426-3439
Janet Steele (e-mail: steelej@em.agr.ca)

New Brunswick Regional Office
Tel: (506) 452-3706
Fax: (506) 452-3509
Bernard Mallet (e-mail: malletb@em.agr.ca)

Prince-Edward-Island Regional Office
Tel: (902) 566-7315
Fax: (902) 566-7316
Rollin Andrew (e-mail: andrewr@em.agr.ca)

Newfoundland Regional Office
Tel: (709) 772-0330
Fax: (709) 772-4803
Al McIsaac (e-mail: mcisaaca@em.agr.ca)

Foreign Affairs and International Trade - InfoCentre
The federal government department of Foreign Affairs and International Trade (DFAIT) offers international trade and market information, programs and publications, reference and consultation services for Canadian exporters. (Internet: http://www.dfait-maeci.gc.ca)

Across Canada
1-800-267-8376

Ottawa
Tel: (613) 944-4000
Fax: (613) 996-9709

International Trade Centres
Located across the country, they offer new and experienced exporters market information, export counselling, trade-related services and a link to Canadian Trade Commissioners abroad.

Vancouver (British Columbia and Yukon)
Tel: (604) 666-0434
Fax: (604) 666-8330

Edmonton (Alberta and Northwest Territories)
Tel: (403) 495-2944
Fax: (403) 495-4507

Calgary (Alberta)
Tel: (403) 292-6660
Fax: (403) 292-4578

Saskatoon (Saskatchewan)
Tel: (306) 975-5315
Fax: (306) 975-5334

Winnipeg (Manitoba)
Tel: (204) 983-6531
Fax: (204) 983-2187

Toronto (Ontario)
Tel: (416) 973-5053
Fax: (416) 973-8161

Montréal (Quebec)
1-800-322-4636
Tel: (514) 496-4636
Fax: (514) 283-8794

Moncton (New Brunswick)
Tel: (506) 851-6452
Fax: (506) 851-6429

Halifax (Nova Scotia)
Tel: (902) 426-7540
Fax: (902) 426-2624

Charlottetown (Prince Edward Island)
Tel: (902) 566-7400
Fax: (902) 566-7450

St. John's (Newfoundland)
Tel: (709) 772-5511
Fax: (709) 772-2373

Canada Business Service Centres

Located across the country, they provide businesses with a single point of contact for enquiries about federal and provincial government programs and services.

Canada/British Columbia Business Service Centre (Vancouver)
1-800-667-2272
Tel: (604) 775-5525
Fax: (604) 775-5515

Canada Business Service Centre (Edmonton)
1-800-563-9926
Tel: (403) 495-6800
Fax: (403) 495-7725

Canada/Saskatchewan Business Service Centre (Saskatoon)
1-800-667-4374
Tel: (306) 956-2323
Fax: (306) 975-2328

Canada Business Service Centre (Winnipeg)
1-800-665-2019
Tel: (204) 984-2272
Fax: (204) 983-2197

Canada/Ontario Business Service Centre (Toronto)
1-800-567-2345
Tel: (416) 954-8597
Fax: (416) 954-8597

Info Entrepreneurs (Montréal)
1-800-322-4636
Tel: (514) 496-4636
Fax: (514) 496-5934

Canada/New Brunswick Business Service Centre (Fredericton)
1-800-668-1010
Tel: (506) 444-6140
Fax: (506) 444-6172

Canada/Prince Edward Island Business Service Centre (Charlottetown)
1-800-668-1010
Tel: (902) 368-0771
Fax: (902) 566-7098

Canada/Nova Scotia Business Service Centre (Halifax)
1-800-668-1010
Tel: (902) 426-8604
Fax: (902) 426-6530

Canada Business Service Centre (St. John's)
1-800-668-1010
Tel: (709) 772-6022
Fax: (709) 772-6090

International Business Opportunities Centre (IBOC)

Established jointly by the Department of Foreign Affairs and International Trade (DFAIT) and Industry Canada, it matches business leads provided by trade commissioners abroad with Canadian firms. Interested companies must register with DFAIT's WIN Exports database at the nearest Canada Business Service Centre.

Ottawa
Tel: (613) 944-6000
Fax: (613) 996-2635

Canadian Food Inspection Agency (CFIA)
All inspection services related to food safety, economic fraud, trade-related requirements, and animal and plant health programs are provided by CFIA.
(Internet: http://www.cfia-acia.agr.ca)

Headquarters
(613) 225-2342
Agency Information
1-800-442-2342

Maritimes
(506) 851-7672

Newfoundland
(709) 772-4424

Quebec
(514) 283-8888

Alberta
(403) 292-4301

British Columbia and Yukon
(604) 666-6513

Manitoba, Saskatchewan and Northwest Territories
(204) 983-2200

Ontario
(519) 837-9400

Statistics Canada
A federal government service, its International Trade Division collects, analyses and disseminates Canada's import and export trade data. Also available is the World Trade Database on CD-ROM, data reported by the member countries of the United Nations.

Across Canada
1-800-263-1136

Ottawa
Tel: (613) 951-8116

Export Development Corporation (EDC)
This Crown Corporation provides financial services including insurance, financing and guarantees to help exporters in their risk management.
(Internet: http://www.edc.ca)

Across Canada: 1-800-850-9626

Vancouver (British Columbia and Yukon Regional Office)
Tel: (604) 666-6234
Fax: (604) 666-7550

Calgary (Alberta and Northwest Territories District Office)
Tel: (403) 292-6898
Fax: (403) 292-6902

Winnipeg (Manitoba and Saskatchewan District Office)
Tel: (204) 983-5114
Fax: (204) 983-2187

Toronto (Ontario Regional Office)
Tel: (416) 973-6211
Fax: (416) 862-1267

London (District Office)
Tel: (519) 645-5828
Fax: (519) 645-5580

Ottawa (District Office)
Tel: (613) 598-2500
Fax: (613) 237-2690

Montréal (Quebec Regional Office)
Tel: (514) 283-3013
Fax: (514) 878-9891

Halifax (Atlantic Regional Office)
Tel: (902) 429-0426
Fax: (902) 423-0881

Business Development Bank of Canada (BDC)
This Crown Corporation provides financing as well as planning, counselling and training services to assist small- and medium-sized entreprises in exporting.

Across Canada: 1-888-INFO-BDC (1-888-463-6232)

Canadian Commercial Corporation (CCC)
This crown corporation provides performance guarantees to foreign customers, particularly foreign governments and international agencies, enhancing the Canadian exporter's chances of securing a contract. It can also help to access pre-shipment financing.

Across Canada
1-800-748-8191

Ottawa
Tel: (613) 996-0034
Fax: (613) 995-2121

The Canadian Chamber of Commerce
This private sector organization is designed to promote Canadian trade including seminars and conferences, market information, documentation services required for exporting and programs to establish contacts between Canadian exporters and foreign buyers.

Ottawa
Tel: (613) 238-4000
Fax: (613) 238-7643

Alliance of Manufacturers and Exporters Canada (AMEC)
The association provides export information, advice, support and education. It also provides opportunities for networking at seminars, conventions and workshops.

Toronto Office (Head Office)
Tel: (416) 798-8000
Fax: (416) 798-8050

Ottawa Office
Tel: (613) 238-8888
Fax: (613) 563-9218

Canadian Food Exporters Association
This association represents and assists exporters of the food industry.

Across Canada
1-888-227-8848

Toronto
Tel: (416) 445-3747
Fax: (416) 510-8044

Canadian International Freight Forwarders Association
This organization is a source of expertise concerning all aspects of transportation and related services.

Streetsville
Tel: (905) 567-4633
Fax: (905) 542-2716

Canadian Association of Customs Brokers
Companies exporting to other countries will require the services of customs brokers who are located in the target country and familiar with customs procedures in that jurisdiction. The association will direct enquiries to equivalent organizations abroad.

Ottawa
Tel: (613) 562-3543
Fax: (613) 562-3548

Other Sources
Foreign embassies in Canada, commercial banks, consulting firms, public libraries, newspapers, newsletters, trade magazines